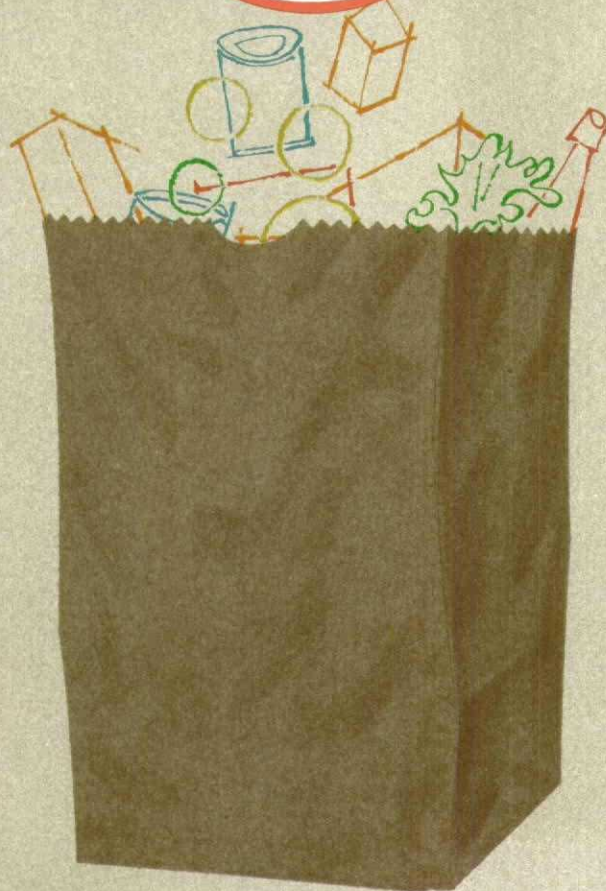


1963



annual report





## *Officers*

JOSEPH B. HALL  
Chairman of the Board

JACOB E. DAVIS  
President

JOHN M. LOCKHART  
Executive Vice President

CHARLES E. JOLITZ  
Vice President

ROBERT MONTGOMERY  
Vice President

THOMAS T. OYLER  
Vice President

JOHN L. STRUBBE  
Vice President and Secretary

FRANK S. VAMOS  
Vice President

RICHARD E. KARKOW  
Treasurer

CARL W. BRIESKE  
Assistant Treasurer

THOMAS E. DEWEY  
Assistant Treasurer

PARK O. MOTTER  
Assistant Treasurer

ROBERT O. ADERS  
Assistant Secretary

GEORGE A. LEONARD  
Assistant Secretary

## *Directors*

H. U. ANDREAE  
Executive Vice President and Treasurer,  
The Jeffrey Company

JOHN C. BAKER  
President Emeritus, Ohio University

BEN H. CARPENTER  
Chairman of the Board,  
Southland Life Insurance Company

JACOB E. DAVIS  
President

FRED C. FOY  
Chairman of the Board,  
Koppers Company, Inc.

HARRY J. GILLIGAN  
Corporate Director

JOSEPH B. HALL  
Chairman of the Board

G. CARLTON HILL  
Chairman of the Board,  
The Fifth Third Union Trust Company

JOHN M. LOCKHART  
Executive Vice President

THOMAS T. OYLER  
Vice President

JAMES M. PHELAN  
Partner, A. T. Kearney & Company

T. SPENCER SHORE  
President, The Eagle-Picher Company

EDWARD D. SMITH  
President,  
The First National Bank of Atlanta

### *Director Emeritus*

WALTER A. DRAPER

### **COMMON STOCK**

#### **TRANSFER AGENTS**

The Provident Bank,  
Cincinnati  
Bankers Trust Company,  
New York

#### **REGISTRARS**

The Central Trust Company,  
Cincinnati  
Chemical Bank New York  
Trust Company, New York

### **CUMULATIVE PREFERRED STOCK—SERIES A**

#### **TRANSFER AGENT**

Bank of America,  
Los Angeles

#### **REGISTRAR**

Crocker-Citizens National Bank,  
Los Angeles



1 9 6 3  
a n n u a l  
r e p o r t

THE KROGER CO.  
1014 VINE STREET  
CINCINNATI 1, OHIO

*Contents*

Highlights .....	1
Letter to Shareowners.....	2
Balance Sheet.....	4
Income Statement.....	6
Ten Year Statistical Summary.....	8

<i>Highlights</i>	<i>1963</i>	<i>1962</i>	<i>Change</i>
SALES	\$2,102,106,248	\$1,947,570,909	+8%
NET INCOME	\$ 22,078,898	\$ 20,424,055	+8%
NET INCOME PER SHARE	\$1.73	\$1.62	+7%
DIVIDENDS PER SHARE	\$1.10	\$1.10	—
NET WORTH	\$ 224,592,415	\$ 194,303,798	+16%
NET WORTH PER SHARE	\$15.94	\$15.39	+4%
CAPITAL EXPENDITURES	\$ 31,378,855	\$ 36,150,675	—13%
DEPRECIATION AND AMORTIZATION	\$ 20,026,855	\$ 18,932,118	+6%



## *To Our Shareowners:*

Earnings improved in 1963. Sales reached a new high of more than \$2 billion.

### *Earnings Up*

Net income of \$22,078,898 was equal to \$1.73 per share on the shares outstanding at the year end. This compares with \$1.62 per share earned in 1962. Earnings are after a Lifo charge of 6½¢ per share in 1963 and 1½¢ per share in 1962. Earnings before Lifo charges increased 11%.

Dividends of \$1.10 per common share were paid in 1963. This was the 62nd consecutive year in which Kroger dividends were paid out of current earnings. The regular quarterly dividend of 27½¢ per common share, payable on March 1, 1964, has been declared.

### *Sales Pass Two Billion Dollar Mark*

Sales of \$2,102,106,248 in 1963 exceeded a long-term Kroger goal. The sales gain of 8% surpassed the 6% gain in 1962. Kroger was 68 years old before it reached the billion dollar sales level. The second billion required only 11 years.

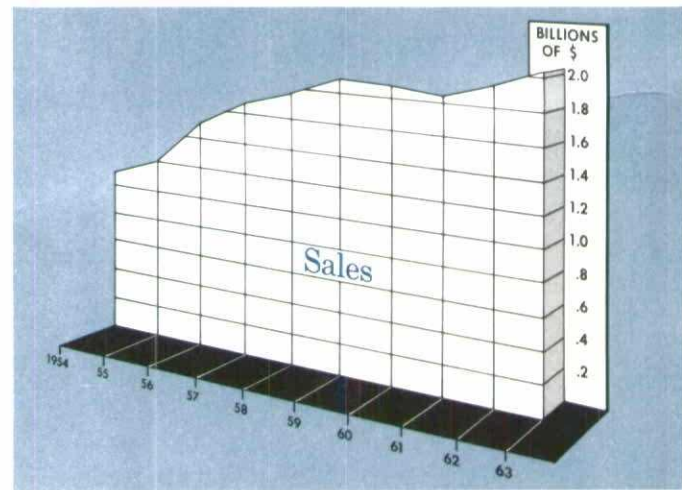
### *Financial Position Continues Strong*

Cash and marketable securities at year end were \$66,173,870. A \$20 million term loan due on June 1, 1963, was repaid without additional borrowing. This resulted from more effective use of working capital. Cash and inventory control procedures instituted during the past year are expected to reduce future working capital requirements. No additional financing is contemplated at this time.

Capital expenditures totaled \$31,378,855 in 1963. \$7,486,259 was for store land and buildings, \$14,912,850 for store equipment and improvements, \$865,471 for distribution centers, \$4,453,926 for transportation equipment, \$3,467,197 for manufacturing facilities and \$193,152 for miscellaneous items. Depreciation and amortization totaled \$20,026,855.

### *Food Divisions*

\$2,033,943,150 of Kroger total sales in 1963 came from the 26 food divisions operating in the Middle West and South. Twenty-four of these divisions had improved sales in 1963.



Economies have been achieved in building and fixturing our stores, in handling and transporting products, and in procurement. Consolidation of several distribution centers and garages has resulted in lower operating costs. Industrial engineering has produced significant savings in many areas of our business.

Seventy-one new food stores were opened in 1963 and 69 old stores were closed. Eighty-three food stores were remodeled and modernized. The average area of food stores opened in 1963 was 16,622 square feet compared to 18,158 square feet in 1962, and 19,000 square feet in 1961.

### *Market Basket—California*

On September 30, 1963, Kroger entered the rapidly growing Southern California area by acquiring the 56-store Market Basket chain. In exchange for Market Basket common stock, Kroger offered a new 4.3% Cumulative Preferred Stock, Series A. Owners of more than 98% of the Market Basket common shares have accepted our offer and exchanged their stock for the new Kroger preferred.

Population growth in greater Los Angeles continues to be explosive. Market Basket enjoys the basic operating and management strength necessary for full participation in this growth. Prior to the year end two new Market Basket stores were opened. Many additional stores are already planned for opening this year.

### Drug Operations

At the year end 119 drug stores were in operation as compared to only 66 a year earlier. There were 10 Sav-On stores in the New York and New Jersey area, 18 Gasen stores in greater St. Louis, and 91 Superex stores in the Middle West, West and South. For the most part, Superex stores are located immediately adjacent to Kroger stores to provide the homemaker the convenience of one-stop shopping for most of her day-to-day needs. However, there are a number of Superex stores outside the territory in which Kroger now has food stores—8 in the Phoenix area and 4 in Florida.

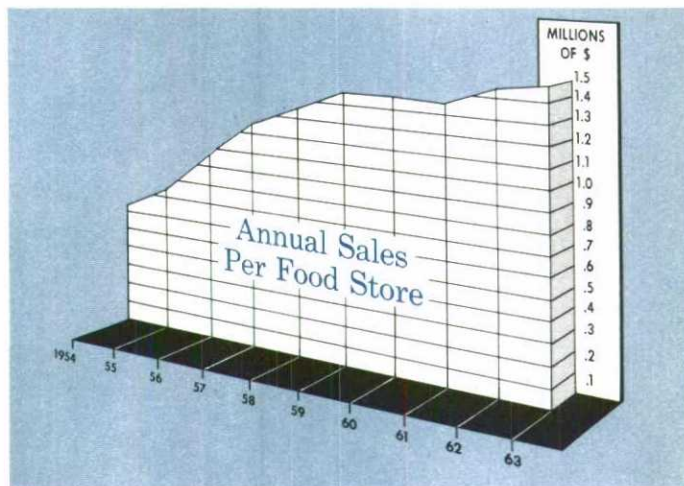
The drug subsidiaries did not make a contribution to Kroger profits in 1963, and will contribute only in a minor way in 1964. Very few drug stores are profitable in their first year of operation. The mature Superex, Sav-On and Gasen stores made real progress in sales and earnings, but they did not generate enough profits last year to absorb the early expenses of the many new stores. Nevertheless, we are now even more convinced that the drug subsidiaries will be an important source of future company profits.

### Food Processing

A modern distribution center for our Processed Foods Division was completed and occupied during the year. The 133-acre site for this facility is located just north of Cincinnati in Springdale, Ohio. A new dairy for processing fluid milk and ice cream is under construction at the same location.

### Directors

Mr. G. Carlton Hill, Chairman of the Board of



The Fifth Third Union Trust Company of Cincinnati, and Mr. H. U. Andreae, Executive Vice President and Treasurer of The Jeffrey Company of Columbus, Ohio, were elected to the Board of Directors at the Annual Meeting in March.

### Outlook For 1964

Economists are virtually unanimous in forecasting a strong and growing economy in 1964. The food business will secure its share of this growth. Kroger should improve its share of market in many areas. Our 1964 new food store program will be slightly larger than last year. The drug subsidiaries will continue their expansion and should be operating 150 stores by the year end.

1964 will be another year of vigorous competition. Nevertheless, the Kroger team plans to improve sales and earnings.

Respectfully submitted,

  
Chairman of the Board

  
President

February 7, 1964





## Assets

# Consolidated Balance Sheet

	<u>Dec. 28, 1963</u>	<u>Dec. 29, 1962</u>
Cash .....	\$ 50,679,173	\$ 55,925,833
Marketable securities, at cost.....	15,494,697	3,967,861
Receivables .....	11,802,767	21,899,905
Inventories (Note 1).....	156,420,181	131,832,323
Store and general supplies.....	6,955,002	6,256,596
Prepaid and miscellaneous assets.....	<u>5,245,647</u>	<u>3,802,577</u>
TOTAL CURRENT ASSETS.....	246,597,467	223,685,095
Investment in unconsolidated subsidiaries, at cost (Note 2).....	2,758,337	2,758,337
Land, buildings and equipment, at cost or less.....	255,575,802	229,963,801
Less allowance for depreciation.....	(108,401,030)	(97,741,607)
Leaseholds and leasehold improvements, net.....	43,779,850	42,462,260
Excess cost of investment in subsidiary over net assets acquired....	<u>11,921,764</u>	<u>—</u>
TOTAL ASSETS.....	\$452,232,190	\$401,127,886

# December 28, 1963 and December 29, 1962

## Liabilities

	<u>Dec. 28, 1963</u>	<u>Dec. 29, 1962</u>
Accounts payable .....	\$ 93,504,610	\$ 67,409,406
Accrued expenses .....	41,045,394	38,315,218
Provision for federal taxes.....	16,507,026	14,913,734
Long-term indebtedness (Note 3).....	1,591,268	20,961,000
TOTAL CURRENT LIABILITIES.....	<u>152,648,298</u>	<u>141,599,358</u>
Long-term indebtedness (Note 3).....	42,973,704	41,655,767
Deferred federal income taxes.....	23,570,000	17,143,000
Deferred investment credit.....	2,350,000	1,250,000
Employees' benefit fund.....	5,885,217	5,175,963
Minority interest in subsidiary.....	212,556	—
CAPITAL		
Preferred capital stock:		
First and second preferred, par \$100.....	24,700	35,300
Cumulative preferred, voting, par \$50 (Notes 4, 5 and 6).....		
Authorized: 750,000 shares		
Outstanding: Series A, 464,351 shares.....	23,217,550	—
Common capital stock, par \$1 (Notes 5 and 6)		
Authorized: 18,000,000 shares		
Outstanding: 1963, 12,633,546 shares after deducting 152,771		
shares in treasury at cost, \$4,404,937; 1962, 12,625,178		
shares after deducting 89,557 shares in treasury at cost,		
\$2,539,167 .....	56,205,003	57,034,248
Accumulated earnings (Note 3).....	145,145,162	137,234,250
TOTAL CAPITAL .....	<u>224,592,415</u>	<u>194,303,798</u>
TOTAL LIABILITIES AND CAPITAL.....	<u>\$452,232,190</u>	<u>\$401,127,886</u>

## *Consolidated Statement of Income*

Years Ended December 28, 1963 and December 29, 1962

	1963	1962
Sales .....	\$2,102,106,248	\$1,947,570,909
Cost of sales.....	1,688,420,667	1,562,657,964
Operating, general and administrative expenses.....	366,508,504	338,202,964
Total.....	<u>2,054,929,171</u>	<u>1,900,860,928</u>
Operating profit.....	47,177,077	46,709,981
Interest expense.....	2,093,179	2,490,926
Income before federal taxes on income.....	45,083,898	44,219,055
Federal taxes on income.....	23,005,000	23,795,000
Net income.....	\$ 22,078,898	\$ 20,424,055

## *Consolidated Statement of Accumulated Earnings*

Year Ended December 28, 1963

Accumulated earnings—December 29, 1962.....		\$ 137,234,250
Net income for 1963.....		<u>22,078,898</u>
		159,313,148
Dividends:		
Preferred .....	\$ 251,610	
Common .....	<u>13,916,376</u>	
		14,167,986
Accumulated earnings—December 28, 1963 (Note 3).....		\$ 145,145,162



## Notes to Financial Statements

1. Inventories are valued at the lower of cost or market, and in part are on the Lifo basis.
2. All wholly-owned subsidiaries and Market Basket (a 98.3% owned subsidiary acquired on September 30, 1963, in exchange for Cumulative Preferred Shares, Series A) have been included in consolidation.  
The company's equity in the net assets of unconsolidated subsidiaries amounted to \$6,352,701 at December 28, 1963. Dividends of \$52,500 were received from one of the subsidiaries in 1963. The company's equity in earnings of unconsolidated subsidiaries for 1963 amounted to \$1,708,247.

3. Long-term indebtedness:

3.1% notes maturing October 1, 1971.....	\$11,900,000
4¾% promissory notes, 70% maturing November 5, 1978, 30% maturing March 2, 1979.....	10,000,000
4.8% promissory notes maturing October 19, 1981 .....	15,000,000
4.5% promissory notes maturing November 13, 1966 .....	3,000,000
5½% notes maturing November 1, 1977....	1,900,000
Other .....	2,764,972
	44,564,972
Less, amounts due within one year.....	1,591,268
	<u>\$42,973,704</u>

Under certain of the loan agreements, payments of cash dividends are limited. At December 28, 1963, accumulated earnings unrestricted, under the agreement carrying the maximum limitation, amounted to \$54,515,241.

4. As of December 28, 1963, 491,222 shares of the authorized Cumulative Preferred Shares are designated Series A. These shares provide for annual dividends of \$2.15 per share; conversion into Common Stock, until September 30, 1973, at one and one-half shares for each share of preferred; and, redemption at \$55 per share from October 1, 1966, to September 30, 1968, and \$50 per share thereafter, plus accumulated and unpaid dividends.
5. Options to officers and executives to purchase 420,230 shares of Kroger common stock were in force at December 29, 1962. Option transactions during the year may be summarized as follows: granted 65,000 shares; exercised 71,501 shares; expired or cancelled 34,636 shares. Options to purchase 379,093 shares were in force at December 28, 1963. Shares available for option at the beginning and close of the year were 107,000 and 49,500, respectively. Options for 114,297 shares were exercisable at December 28, 1963.  
The company entered into agreements with employees of Market Basket, (see Note 2), holding options to purchase 35,504 common shares of the subsidiary, to substitute, in lieu

thereof, 17,752 shares of the company's Cumulative Preferred Shares, Series A. The only option transactions, since effective date of the agreements, were those related to the expiration or cancellation of 1,148 shares. Options to purchase 16,604 shares were in force at December 28, 1963, of which, options for 1,037 shares were exercisable.

6. At December 28, 1963, 734,676 shares of authorized Common Stock are reserved for conversion of Cumulative Preferred Shares, Series A.
7. The company operates principally in leased premises. At December 28, 1963, there were 776 leases expiring subsequent to 1968, with minimum annual rentals of approximately \$23,160,000.

## Report of Certified Public Accountants

LYBRAND, ROSS BROS. & MONTGOMERY  
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors  
The Kroger Co.  
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of December 28, 1963, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at December 28, 1963, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

*Lybrand, Ross Bros. & Montgomery*

Cincinnati, Ohio  
February 7, 1964



## 10 Year Statistical Summary

### For the Year

	1963	1962	1961	1960
SALES.....	\$2,102,106,248	\$1,947,570,909	\$1,842,342,667	\$1,870,289,637
NET INCOME BEFORE TAXES.....	\$ 45,083,898	\$ 44,219,055	\$ 35,035,685	\$ 48,218,029
NET INCOME.....	\$ 22,078,898	\$ 20,424,055	\$ 16,952,685	\$ 23,478,029
NET INCOME PER SHARE (1).....	\$1.73	\$1.62	\$1.34	\$1.87
DIVIDENDS PER SHARE (2).....	\$1.10	\$1.10	\$1.10	\$1.10
RETAINED EARNINGS.....	\$ 7,910,912	\$ 6,578,540	\$ 3,094,323	\$ 9,732,605

### At the Year End

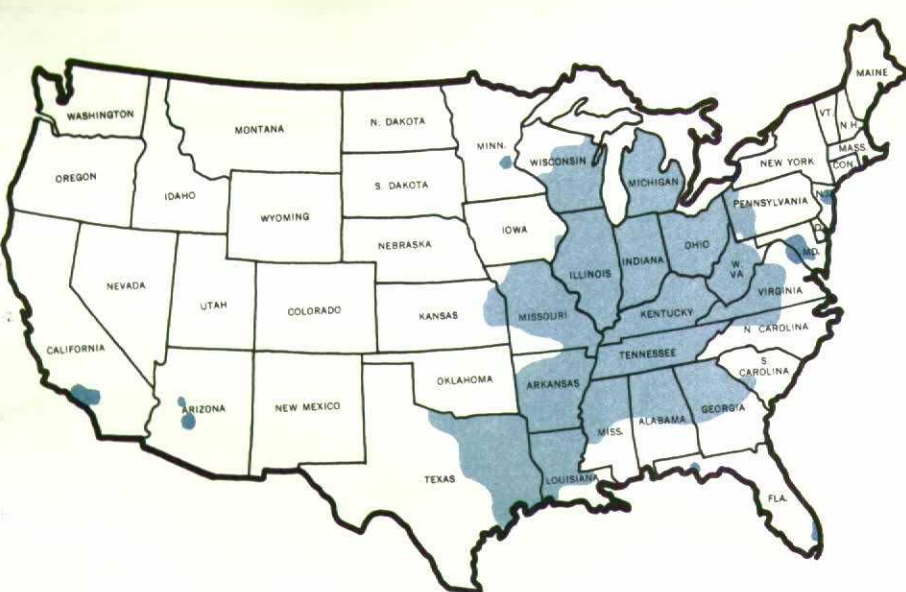
CASH.....	\$ 50,679,173	\$ 55,925,833	\$ 64,004,006	\$ 47,354,159
INVENTORIES.....	\$ 156,420,181	\$ 131,832,323	\$ 121,395,266	\$ 118,783,384
NET WORKING CAPITAL.....	\$ 93,949,169	\$ 82,085,737	\$ 95,694,906	\$ 77,681,795
NET FIXED ASSETS.....	\$ 190,954,622	\$ 174,684,454	\$ 169,967,219	\$ 164,214,974
ACCUMULATED EARNINGS.....	\$ 145,145,162	\$ 137,234,250	\$ 130,655,710	\$ 127,561,387
NET WORTH.....	\$ 224,592,415	\$ 194,303,798	\$ 188,884,685	\$ 185,077,175
NET WORTH PER SHARE(1).....	\$15.94	\$15.39	\$14.96	\$14.75
NUMBER OF SHAREOWNERS.....	42,904	39,936	36,368	35,663
NUMBER OF EMPLOYEES.....	39,130	37,440	37,308	39,691
NUMBER OF FOOD STORES.....	1,424	1,364	1,354	1,372
ANNUAL SALES PER FOOD STORE....	\$ 1,476,223	\$ 1,433,091	\$ 1,349,702	\$ 1,357,249
TOTAL FOOD STORE AREA (Sq. Ft.)..	22,026,900	19,841,911	18,939,624	18,264,615

(1) Adjusted for 3 for 1 split in 1958 and 4% common stock dividends in 1956 and 1957.

(2) Adjusted for 3 for 1 split in 1958.

(3) Plus 4% stock dividend.





1959	1958	1957	1956	1955	1954
\$1,911,902,467	\$1,776,175,147	\$1,674,123,593	\$1,492,552,233	\$1,219,474,812	\$1,108,694,168
\$ 54,137,920	\$ 44,432,930	\$ 41,505,207	\$ 34,515,450	\$ 27,994,575	\$ 27,326,912
\$ 25,516,920	\$ 21,629,930	\$ 20,635,207	\$ 17,071,250	\$ 14,368,292	\$ 14,912,912
\$2.06	\$1.76	\$1.70	\$1.41	\$1.20	\$1.24
\$ .95	\$ .72 1/2	\$ .66 2/3(3)	\$ .66 2/3(3)	\$ .66 2/3	\$ .66 2/3
\$ 13,751,230	\$ 12,739,263	\$ 12,866,895	\$ 9,641,277	\$ 6,962,639	\$ 7,530,540
\$ 52,865,583	\$ 52,566,148	\$ 42,927,467	\$ 41,518,152	\$ 40,696,076	\$ 34,627,962
\$ 118,862,668	\$ 116,628,932	\$ 111,474,382	\$ 106,274,996	\$ 95,112,775	\$ 84,667,841
\$ 93,854,922	\$ 86,679,309	\$ 73,136,938	\$ 71,945,596	\$ 79,180,095	\$ 67,522,366
\$ 145,970,482	\$ 130,504,808	\$ 108,866,641	\$ 95,528,379	\$ 79,616,588	\$ 59,575,135
\$ 117,828,782	\$ 104,077,552	\$ 91,338,289	\$ 87,656,514	\$ 85,163,541	\$ 78,200,902
\$ 173,461,086	\$ 158,573,593	\$ 143,730,410	\$ 130,159,964	\$ 119,910,406	\$ 112,585,204
\$13.97	\$12.87	\$11.83	\$10.77	\$ 9.97	\$ 9.39
34,972	28,514	26,583	26,621	26,596	25,501
40,157	40,500	39,389	36,807	33,705	30,320
1,393	1,428	1,421	1,476	1,587	1,678
\$ 1,357,885	\$ 1,257,914	\$ 1,157,006	\$ 982,589	\$ 740,871	\$ 634,991
17,392,580	16,805,232	15,092,774	13,918,774	12,750,326	11,318,339

